



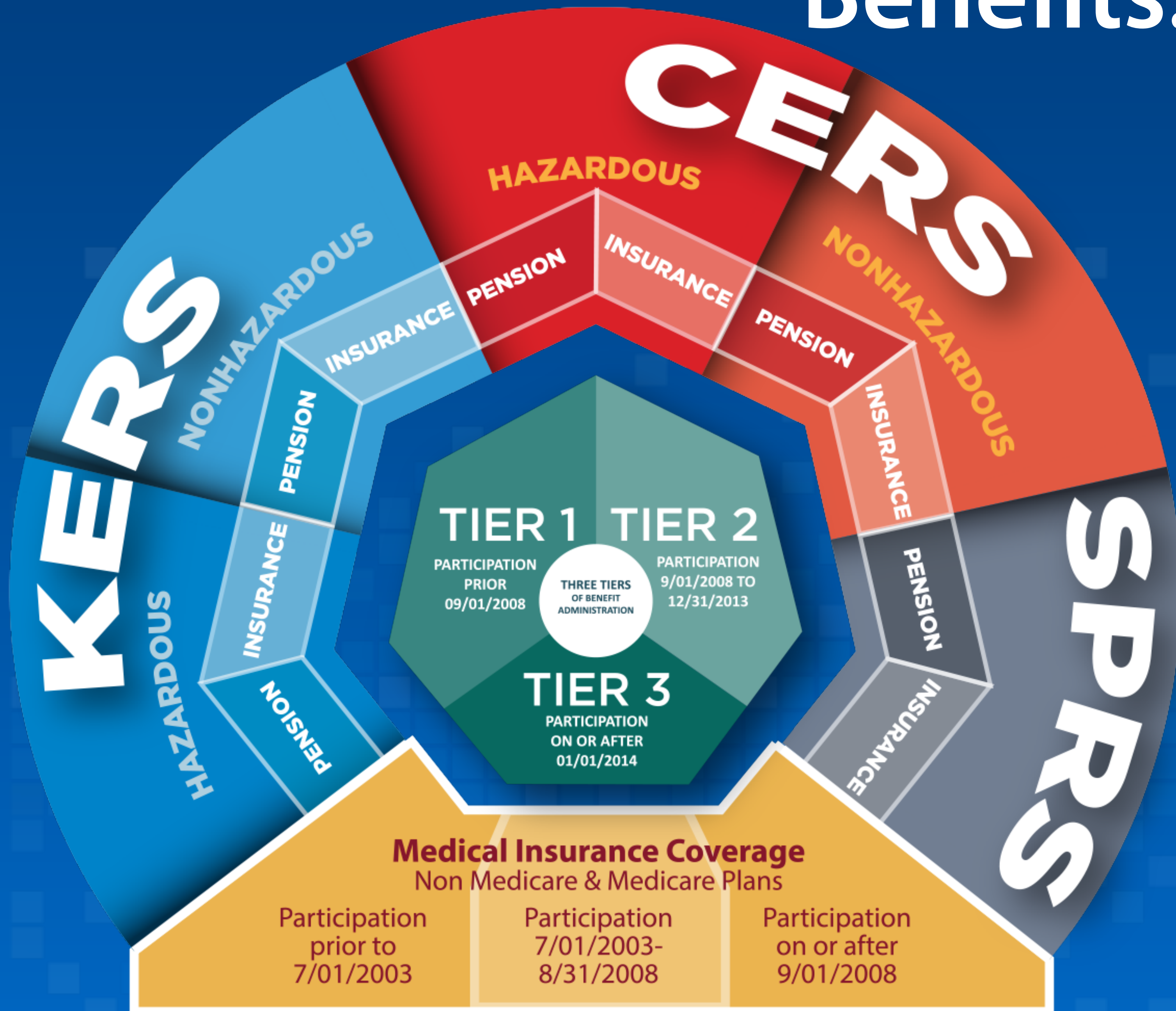
Kentucky Retirement Systems

BUILDING
a better FUTURE
for Kentuckians

Annual Progress Report
2014-15



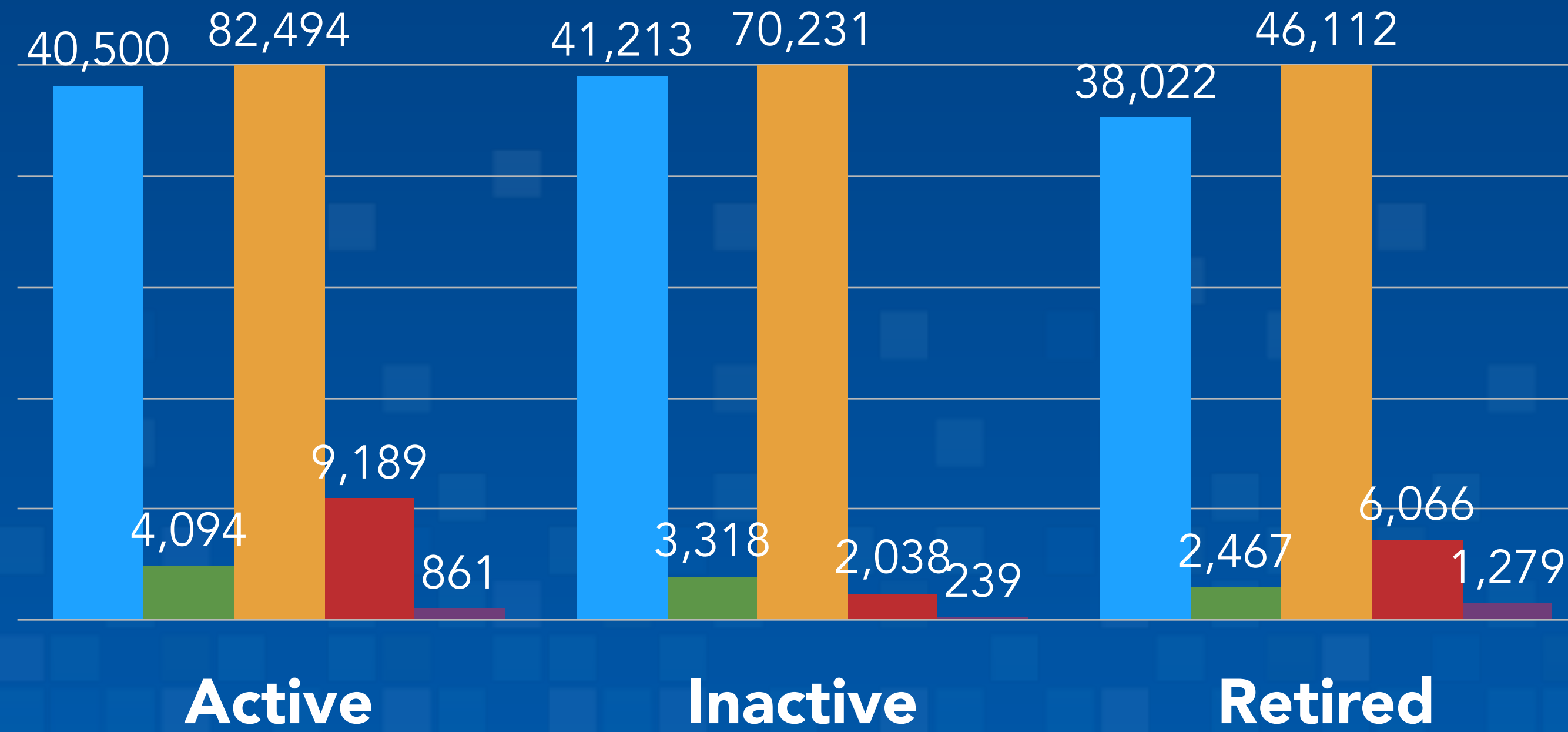
Benefits: Pension & Health Insurance



A unique & complex pension system.

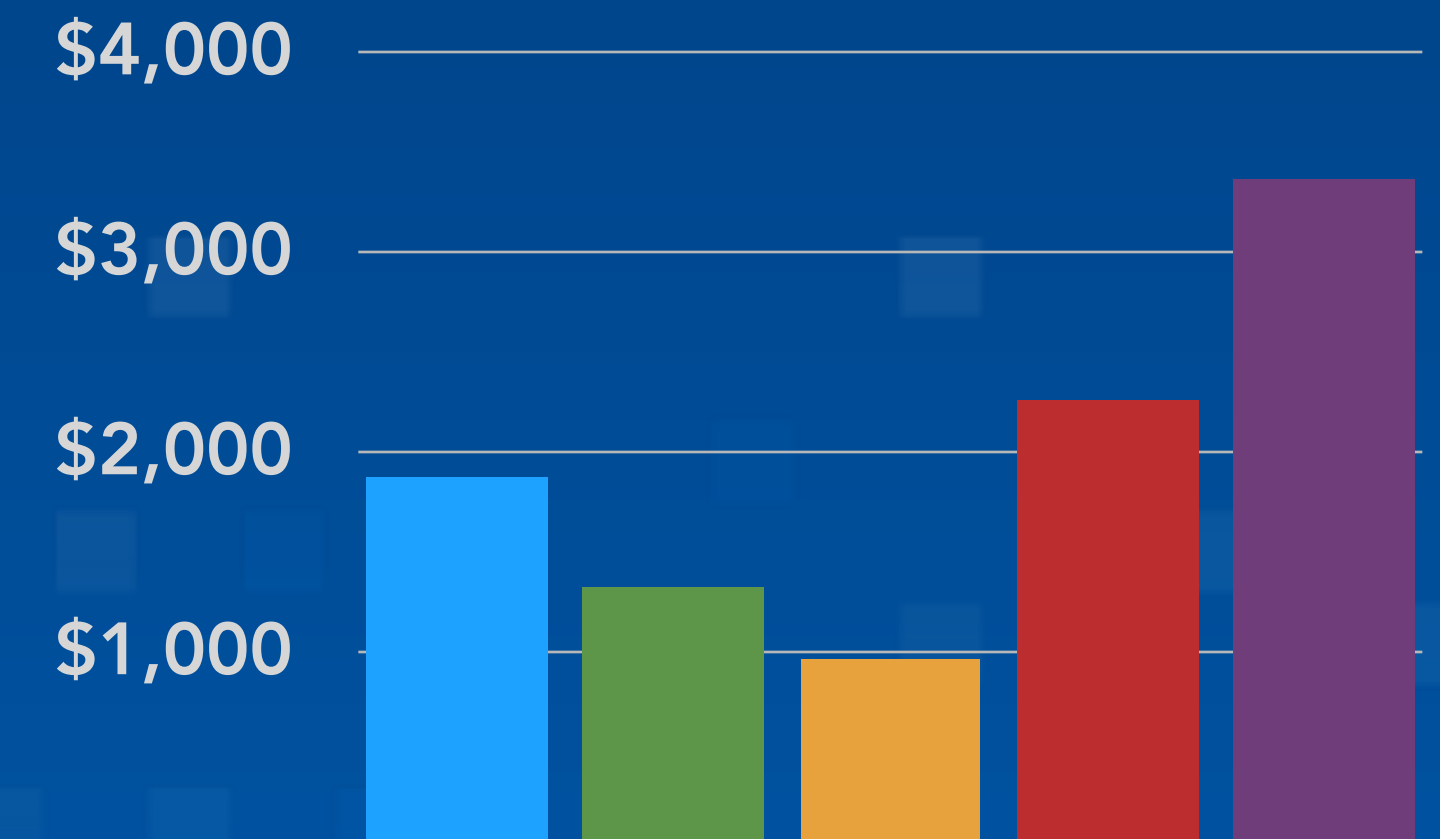
2014 Membership

Membership Breakdown

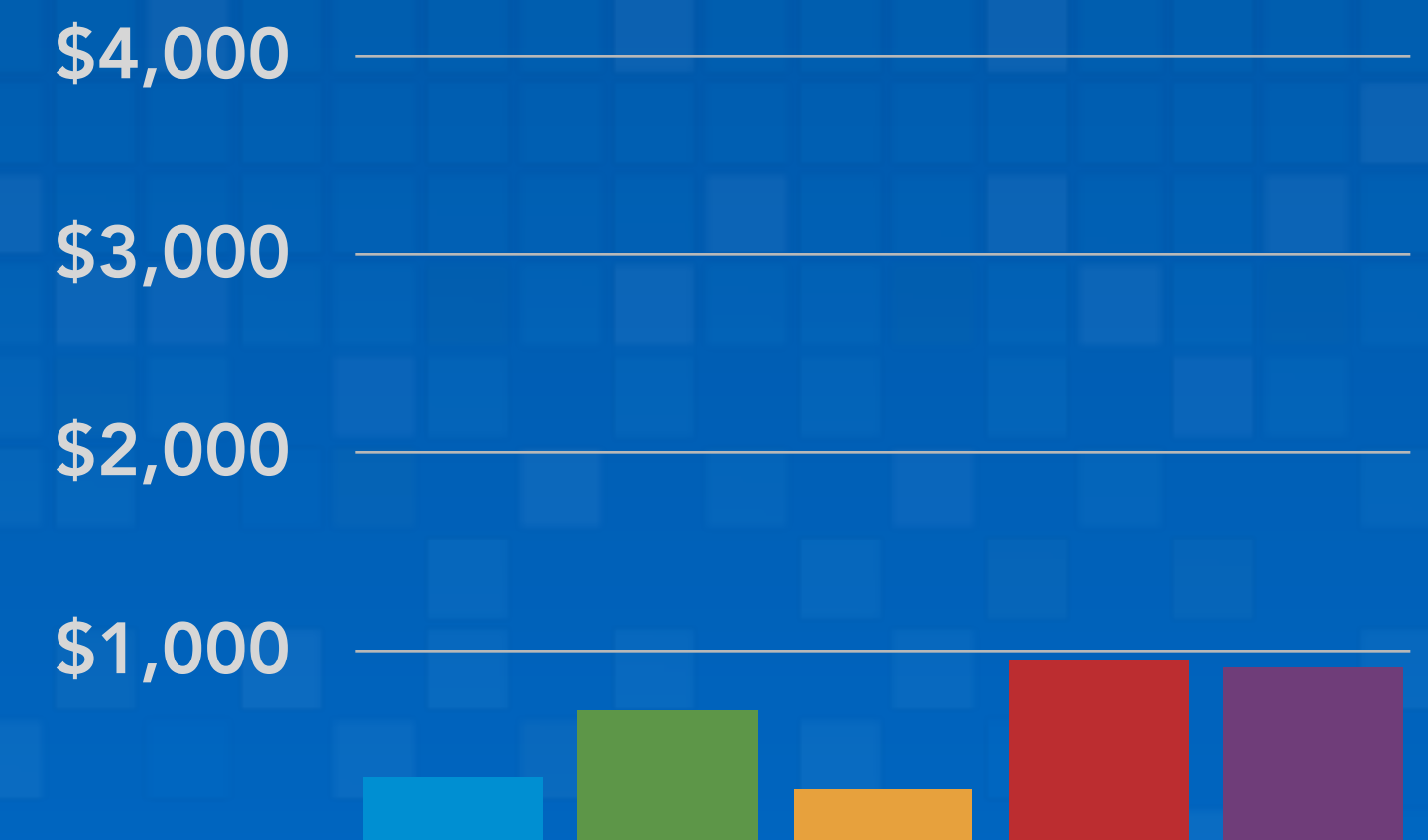


■ KERS Non-Haz
 ■ KERS Haz
 ■ CERS Non-Haz
■ CERS Haz
 ■ SPRS

Average Monthly Pension



Average Monthly System Payment for Health Insurance

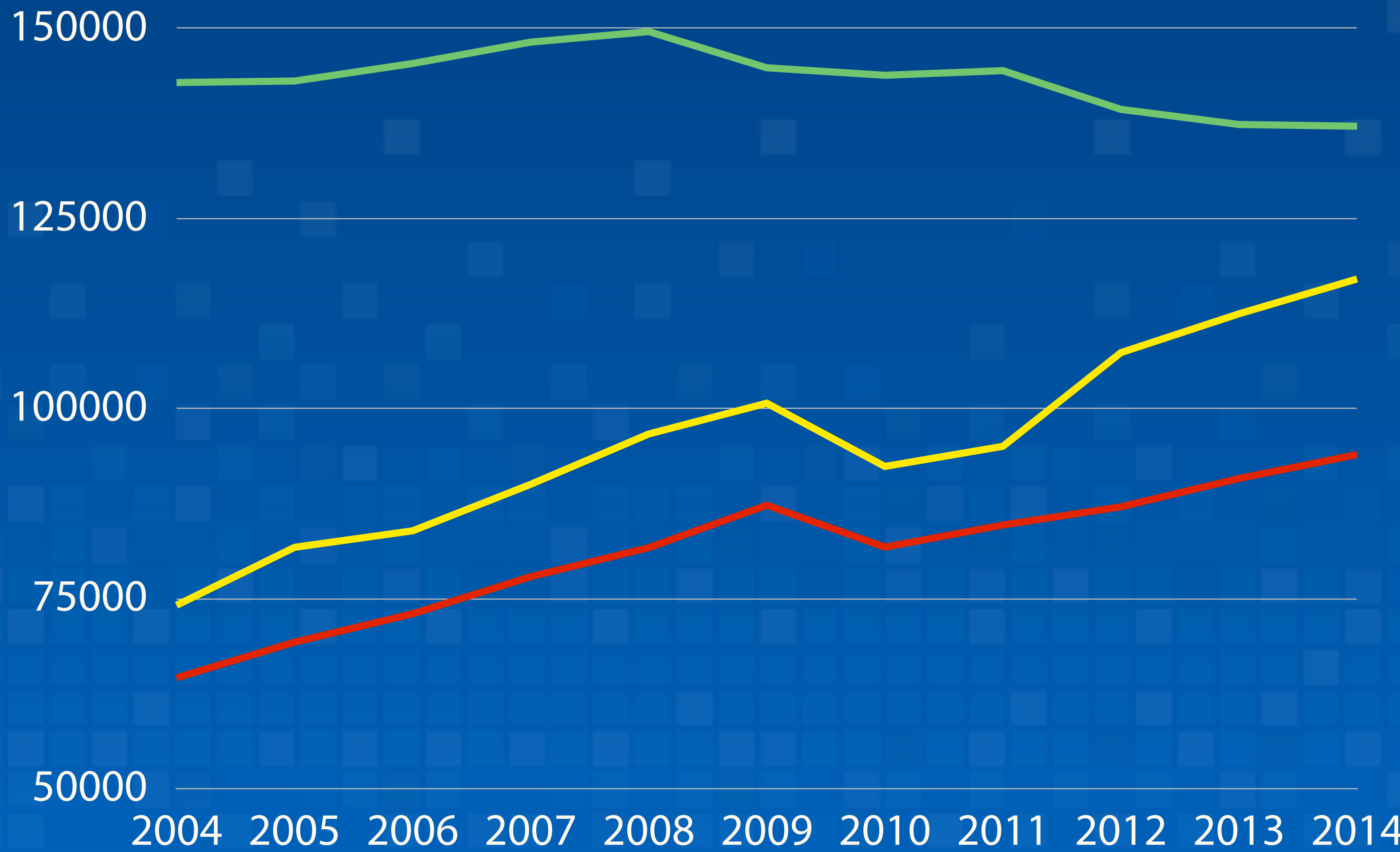


As of June 30, 2014

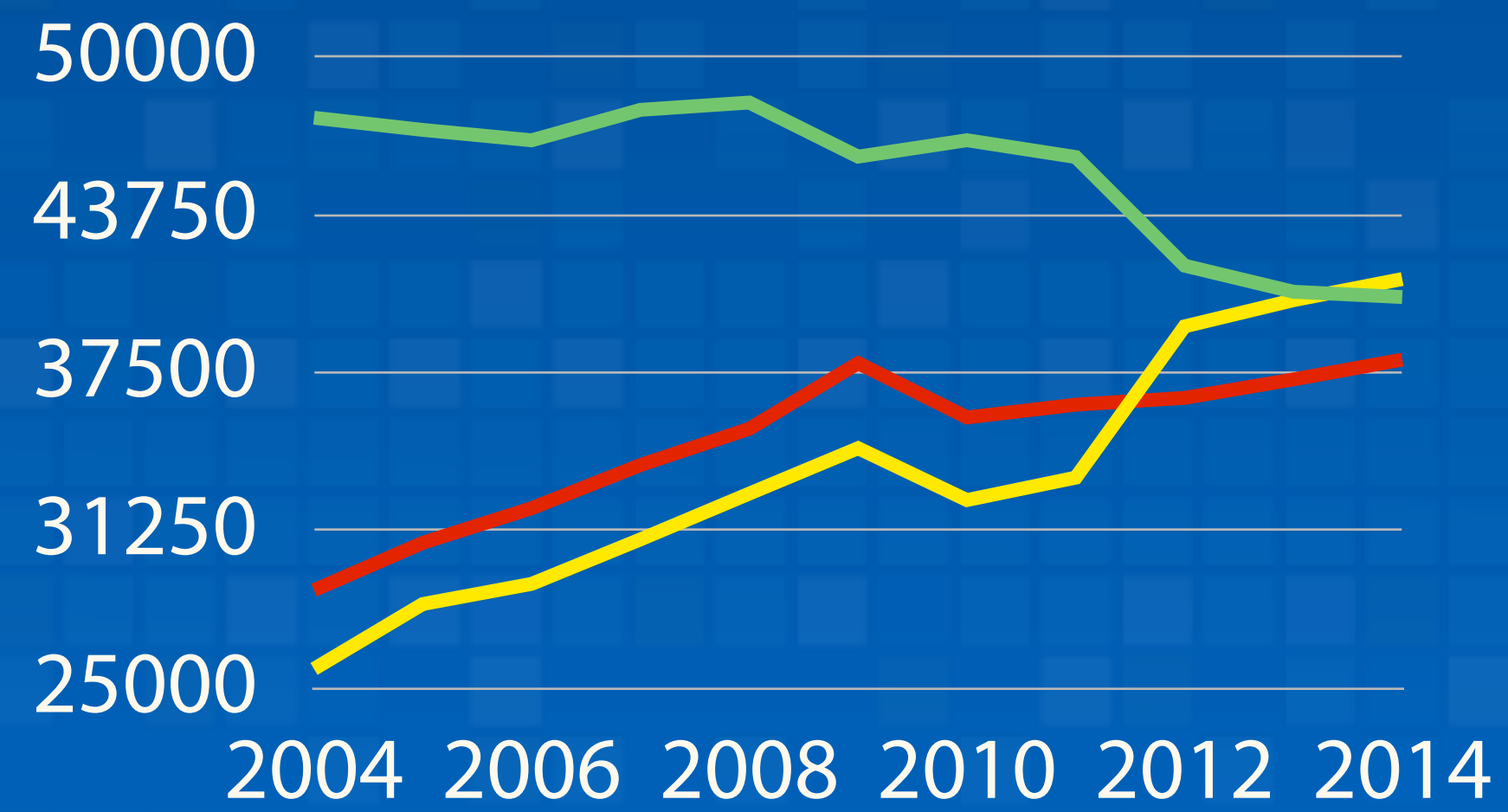
2014 Membership



Total



KERS Nonhaz



As of June 30, 2014

Active Inactive Retired

Pension Membership by Tier

KERS hazardous

	Active	Inactive	Retired	Total
Tier 1	2,232	2,002	2,467	6,701
Tier 2	1,505	1,231	0	2,736
Tier 3	357	85	0	442
Total	4,094	3,318	2,467	9,879

KERS nonhazardous

	Active	Inactive	Retired	Total
Tier 1	27,869	33,941	38,022	99,832
Tier 2	11,145	7,102	0	18,247
Tier 3	1,486	170	0	1,656
Total	40,500	41,213	38,022	119,735

SPRS

	Active	Inactive	Retired	Total
Tier 1	704	185	1,278	2,167
Tier 2	157	54	1	212
Tier 3	0	0	0	0
Total	861	239	1,279	2,379

CERS hazardous

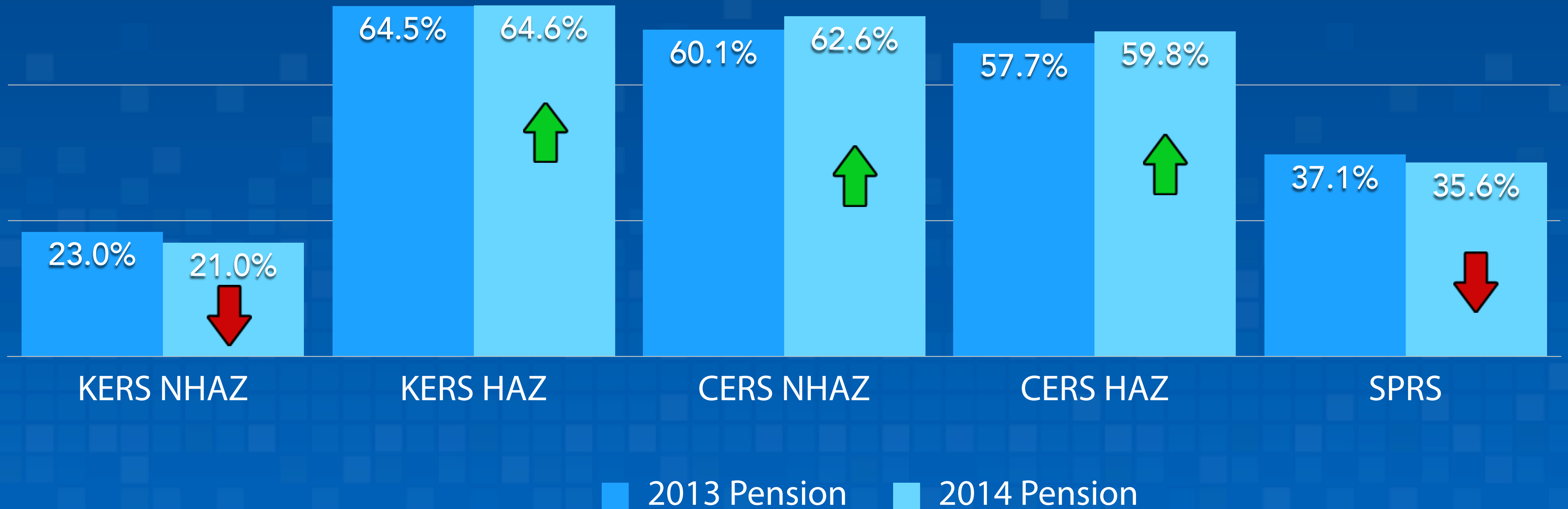
	Active	Inactive	Retired	Total
Tier 1	6,770	1,607	6,065	14,382
Tier 2	2,281	425	1	2,707
Tier 3	198	6	0	204
Total	9,189	2,038	6,066	17,293

CERS nonhazardous

	Active	Inactive	Retired	Total
Tier 1	53,190	55,520	46,111	154,821
Tier 2	26,419	14,521	1	40,941
Tier 3	2,885	190	0	3,075
Total	82,494	70,231	46,112	198,837

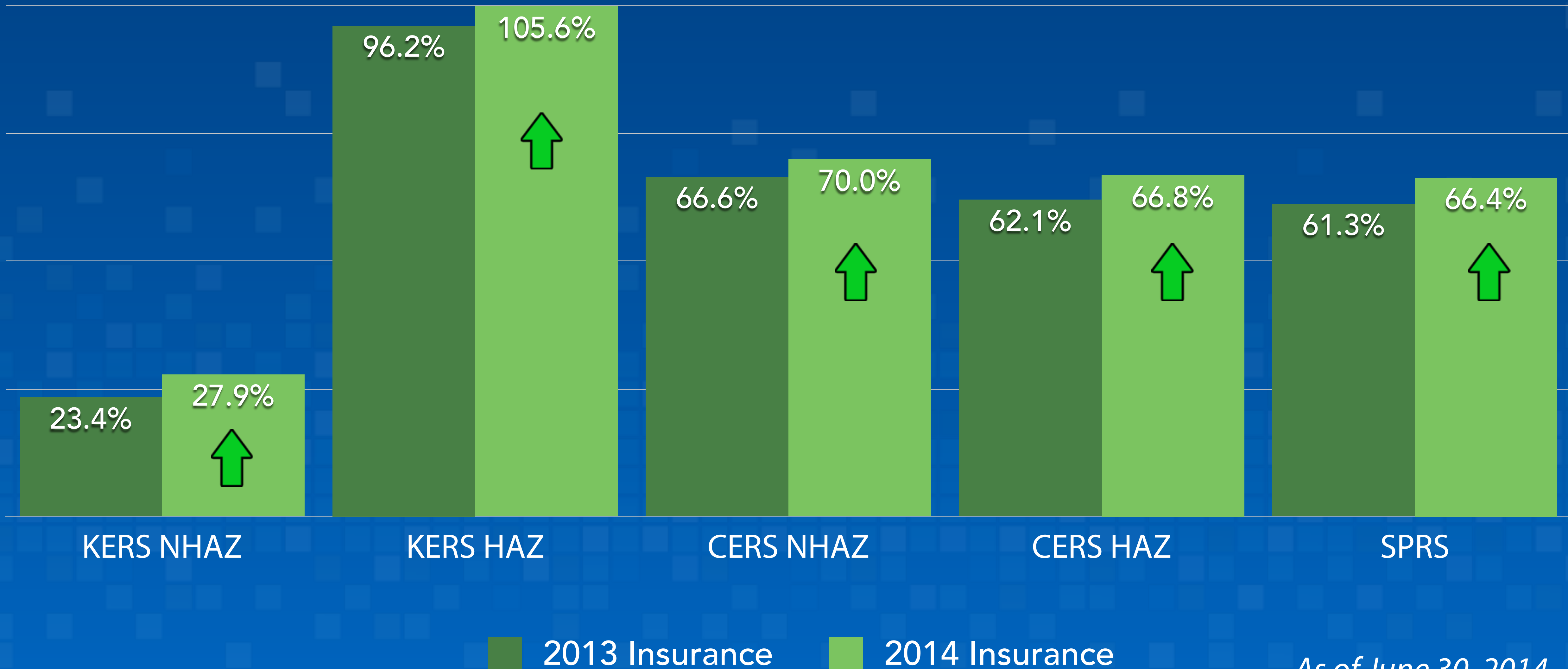
As of June 30, 2014

Actuarial Funding Level - Pension



As of June 30, 2014

Actuarial Funding Level - Insurance



As of June 30, 2014

Financial Summary

(\$ in Millions)

<i>Plan Net Position</i>	Pension Funds		Insurance Funds		Total	
	FYE 2014	FYE 2013	FYE 2014	FYE 2013	FYE 2014	FYE 2013
Net Assets	\$12,016	\$11,153	\$3,865	\$3,473	\$15,881	\$14,626

 **\$1.3 Billion increase driven by Investment Performance**

<i>Changes in Net Plan Position</i>	Pension Funds		Insurance Funds		Total	
	FYE 2014	FYE 2013	FYE 2014	FYE 2013	FYE 2014	FYE 2013
Total Additions	2,699	2,168	933	804	3,631	2,972
Total Deductions	1,836	1,769	300	372	2,136	2,141
Increase in Net Plan Position	\$863	\$399	\$633	\$433	\$1,495	\$832

 **4% increase in retirement payroll**

As of June 30, 2014

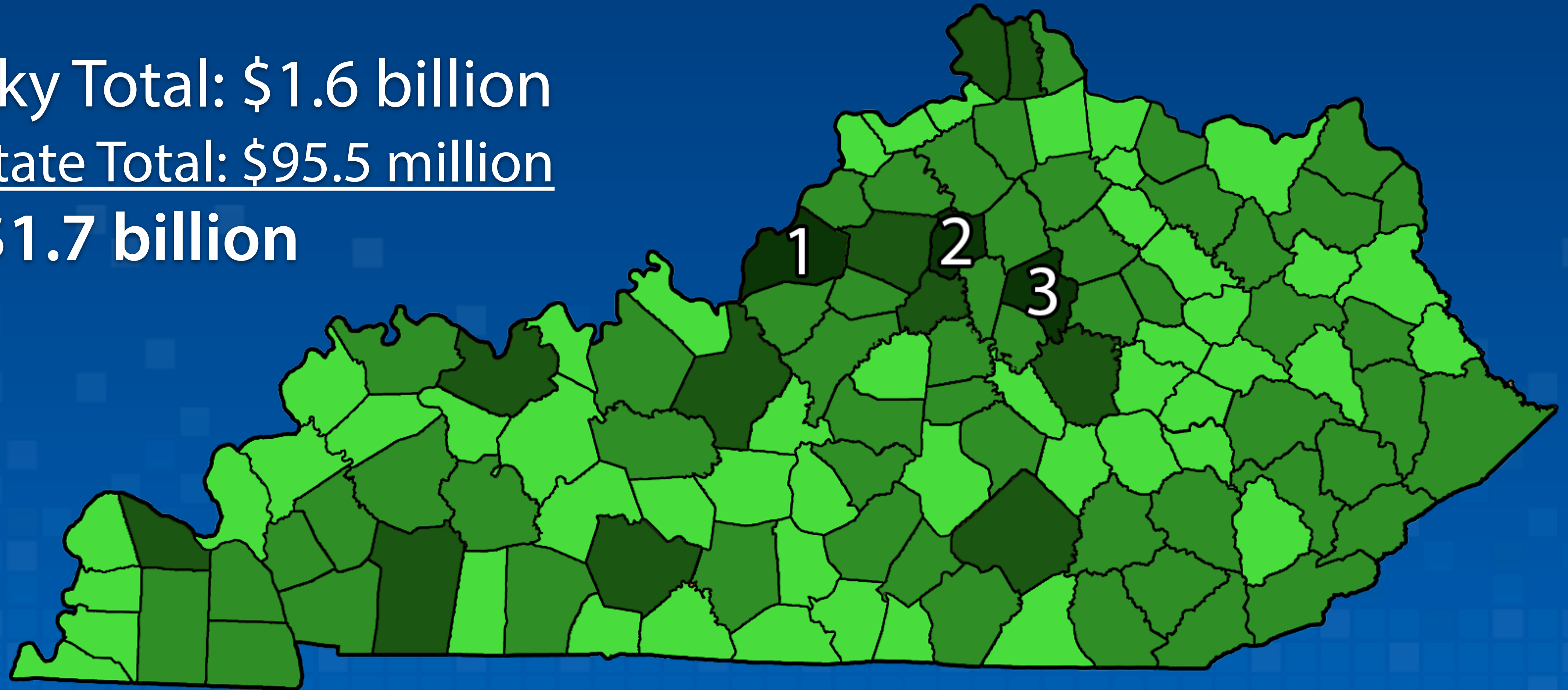
As of June 30, 2014

2014 Fiscal Benefits

Kentucky Total: \$1.6 billion

Out of State Total: \$95.5 million

Total: \$1.7 billion



■ Less than 5 million ■ 5 to 19.9 million ■ 20 to 79.9 million ■ More than 80 million

1 Jefferson
\$289,349,458

2 Franklin
\$180,723,291

3 Fayette
\$97,289,271

2014 Key Agency Events

Q1

- Welcomed 2 new KERS Board Members
- Legislative session ends without Housekeeping Bill approval
- David Peden Named CIO
- Pension Spiking provisions of SB2 implemented

Q2

- Adverse Seven Counties Decision - Appeal Filed
- City of Fort Wright Legal Action
- Town Hall & Investment Webinars
- Fiscal year ends w/strong investment performance of 15.55% vs Benchmark of 14.91%
- 5yr Actuarial Experience Study Results
- New CERS Board Member Welcomed

Q3

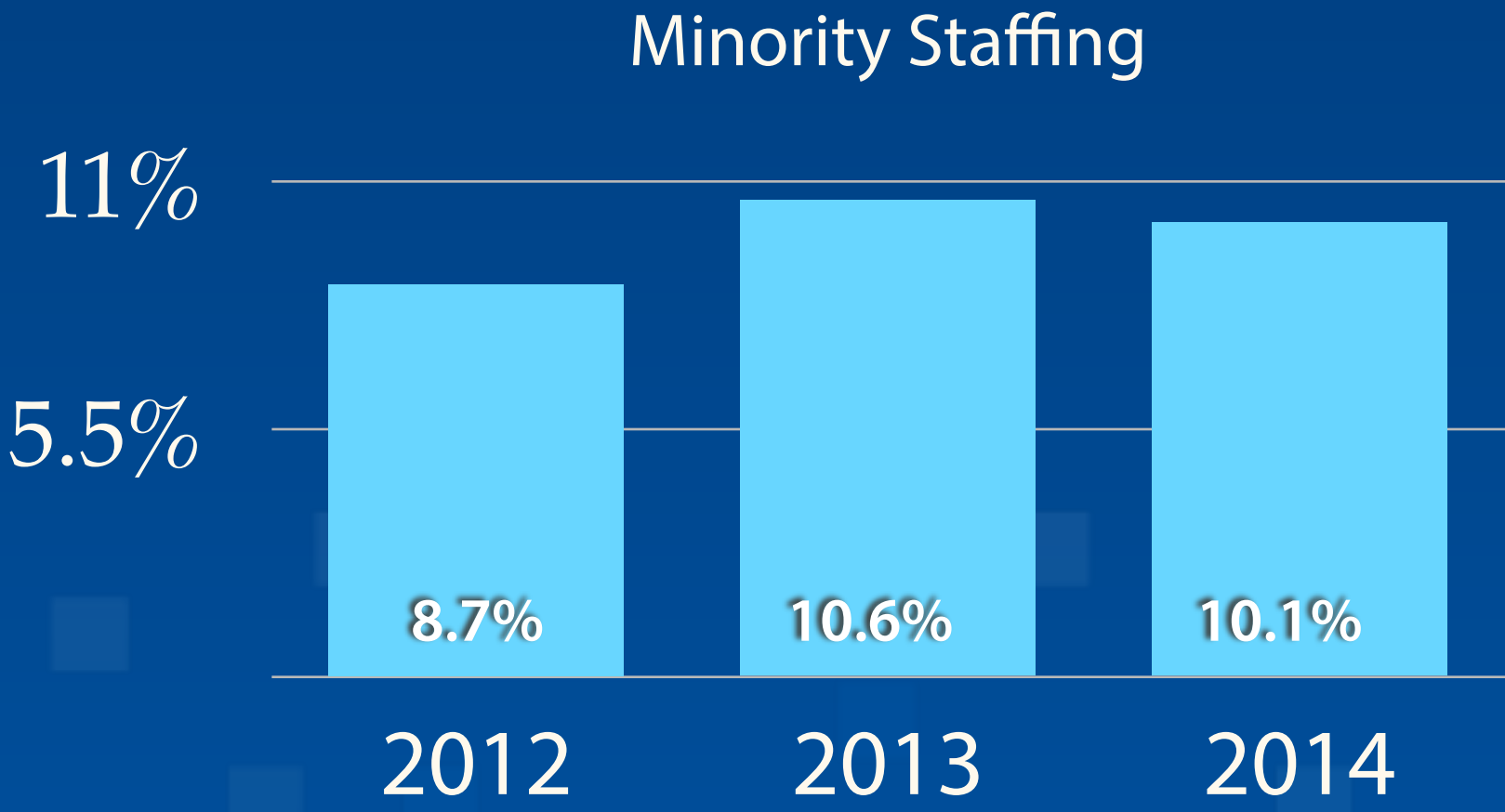
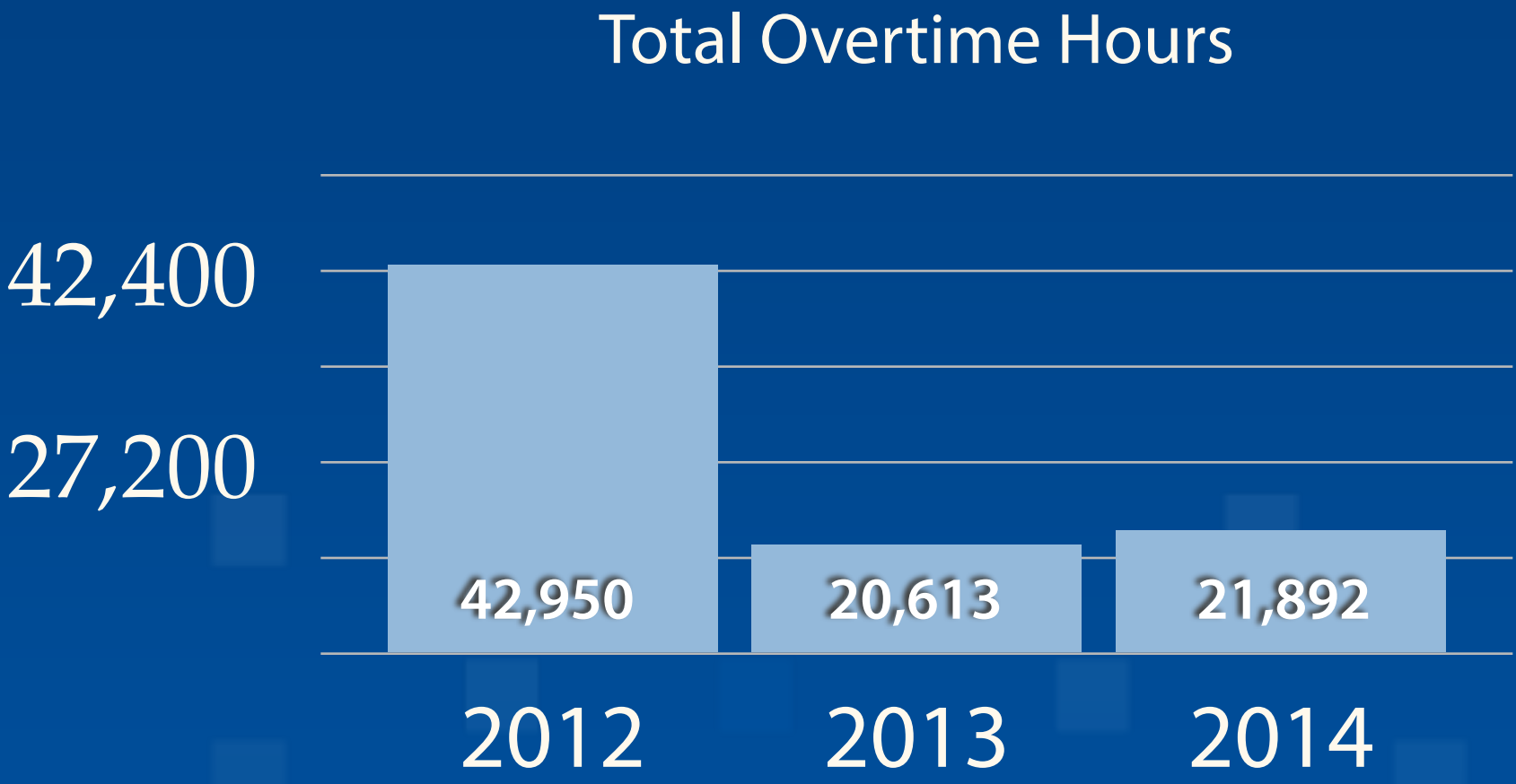
- Becky Stephens named CBO
- 1st Employee merit increases awarded since 2009
- Call Back Assist added to Call Center
- Call Center hours extended for open enrollment

Q4

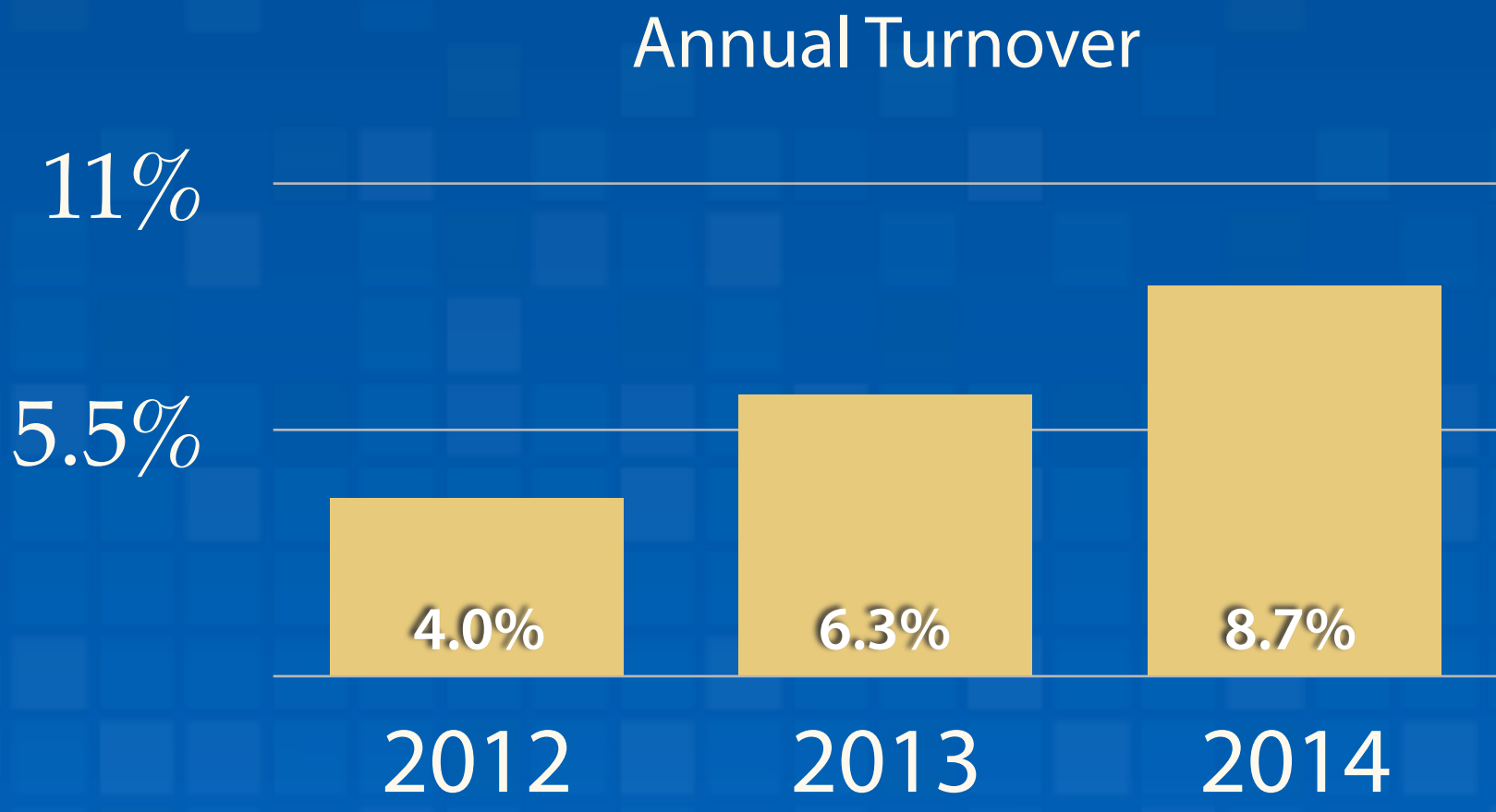
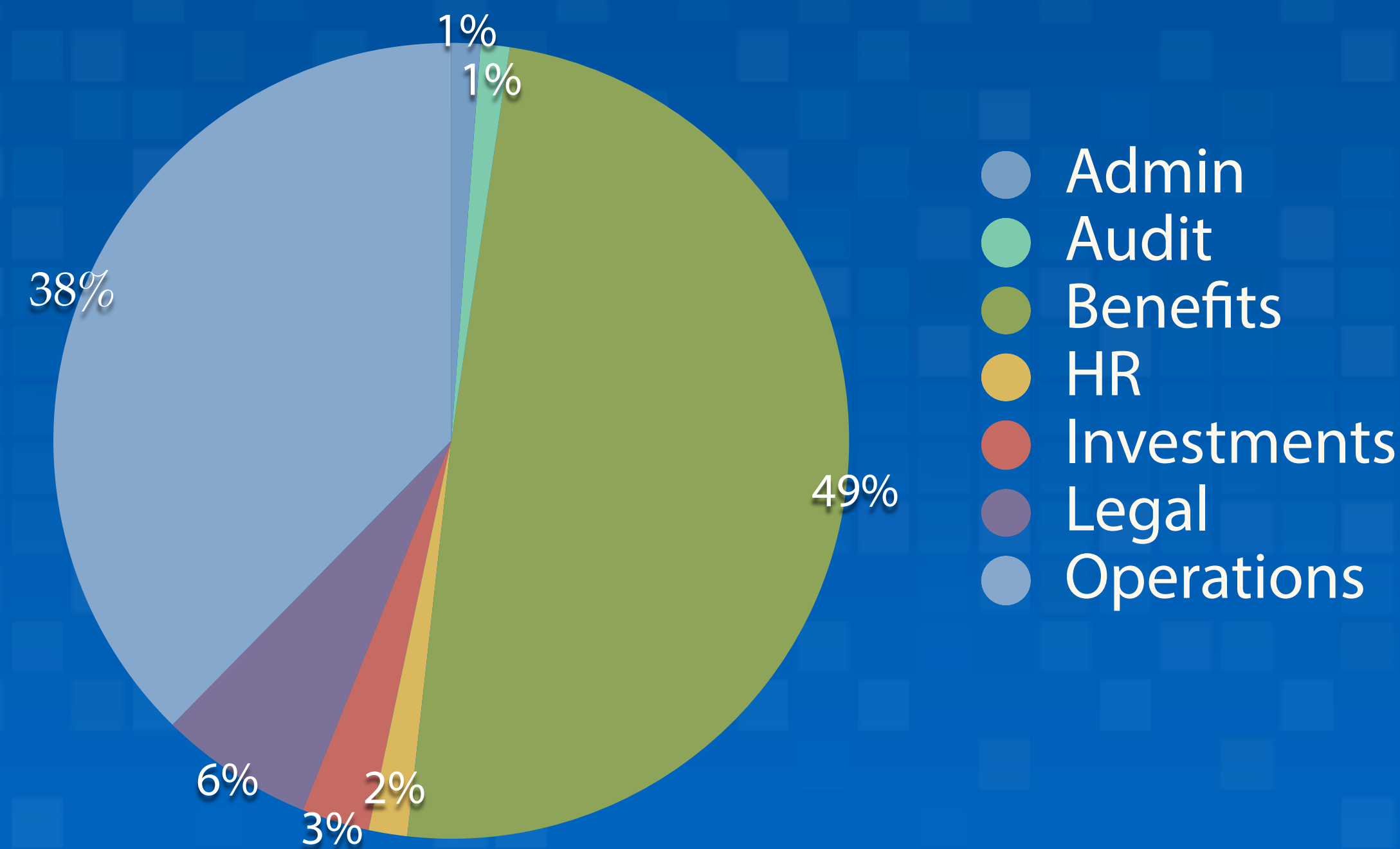
- Mandated Health Insurance Open Enrollment begins w/staff flex schedules paused
- Annual Board Retreat
- Actuarial Valuation Completed
- CAFR & Summary Annual Financial Report Completed



2014 Staffing Levels



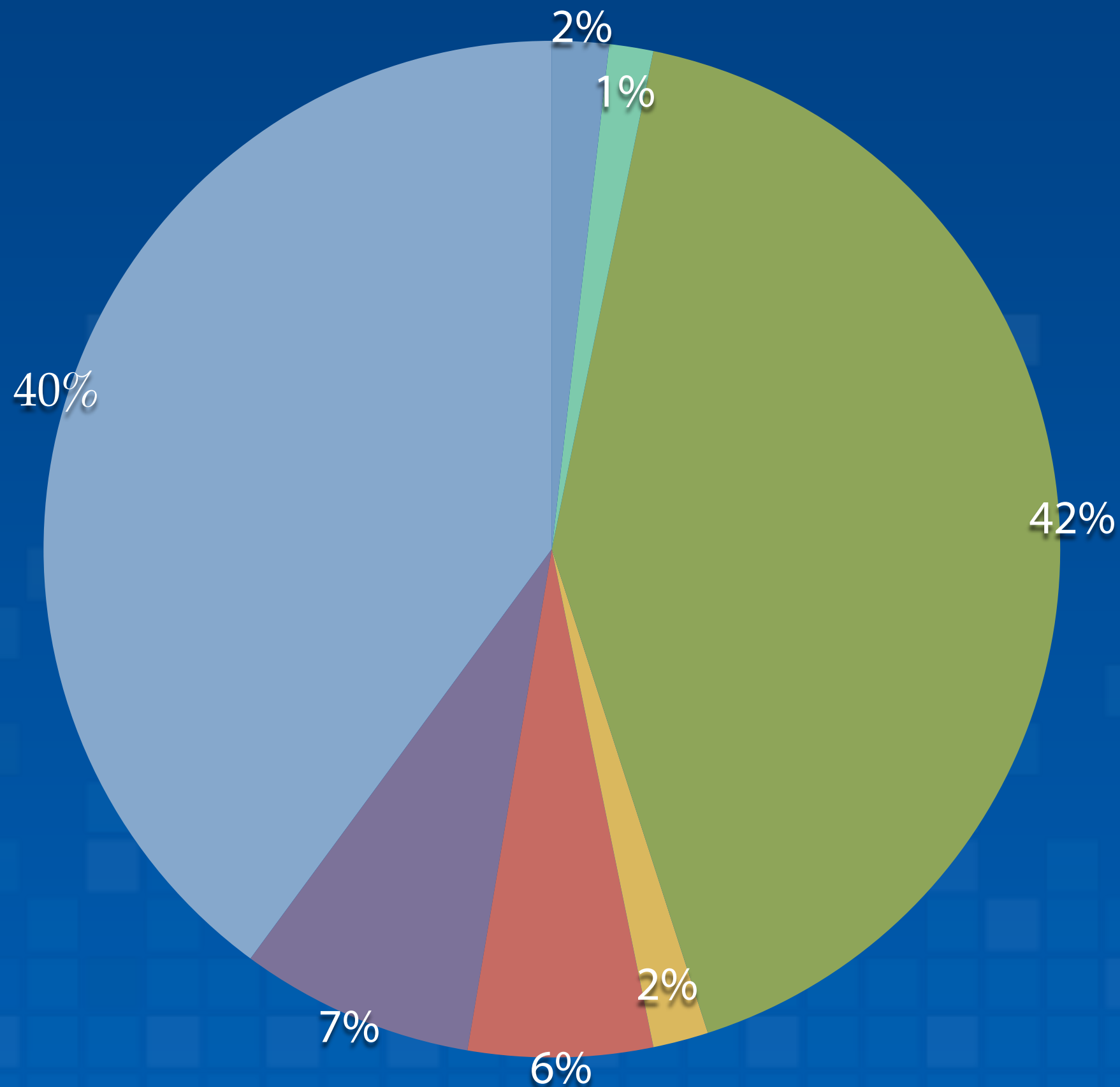
2014 Staffing = 258



As of June 30, 2014

2014 Staffing Expense

Expense by Area



\$ in Millions

	2012	2013	2014
Base Salaries	13.5	13.5	13.5
Retirement	2.7	3.3	3.7
Health Insurance	1.6	1.9	2.0
FICA	1.0	1.0	1.0

Stats:

- 2012-14: Base Salaries Average 37% of KRS Adm Expenses
- 2012-14: Benefits Average 16% of KRS Adm Expenses

As of June 30, 2014

Investments

2014 Top 5 Highlights

Successful portfolio management despite significant staff turnover

\$1.3 billion Non-U.S. equity restructure

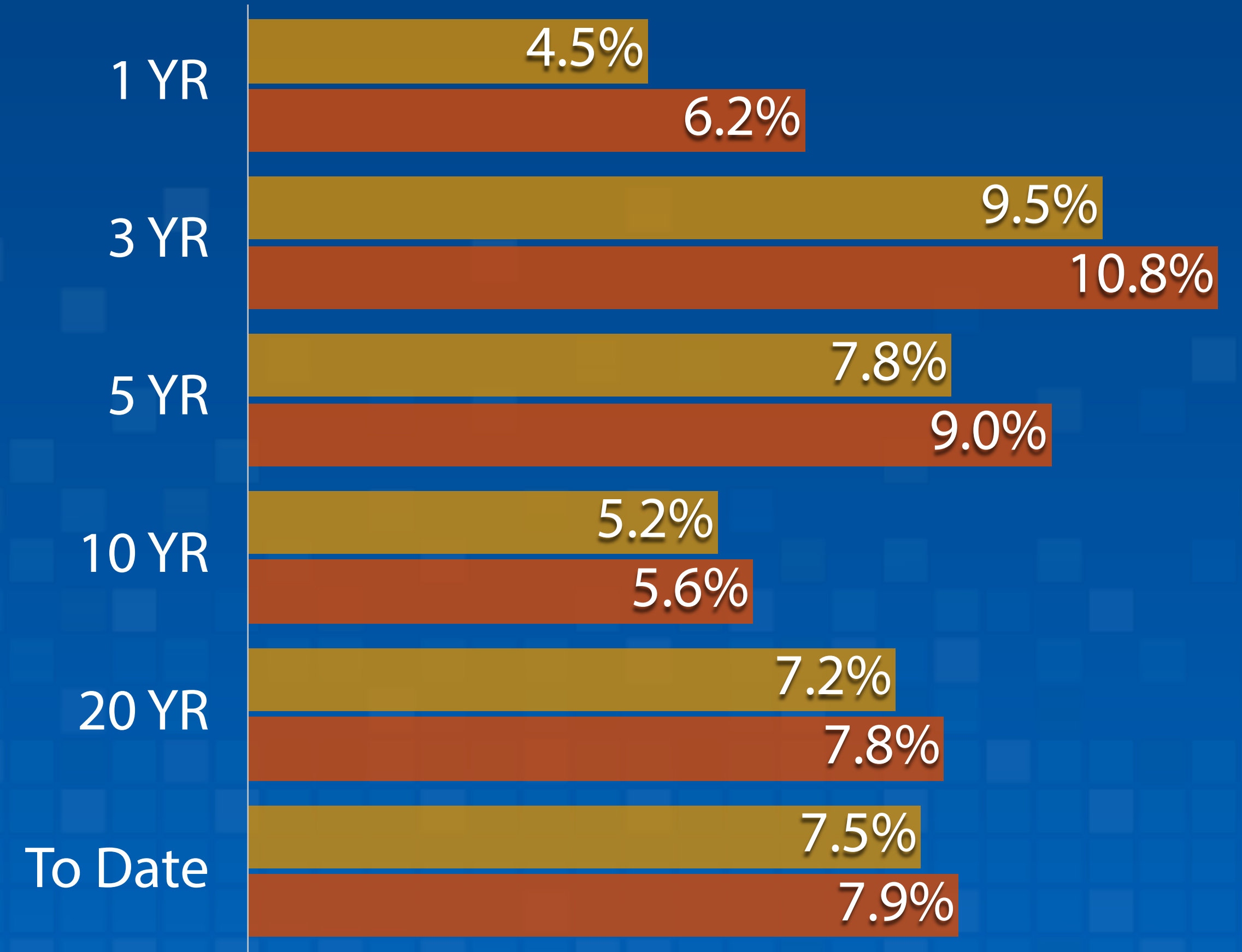
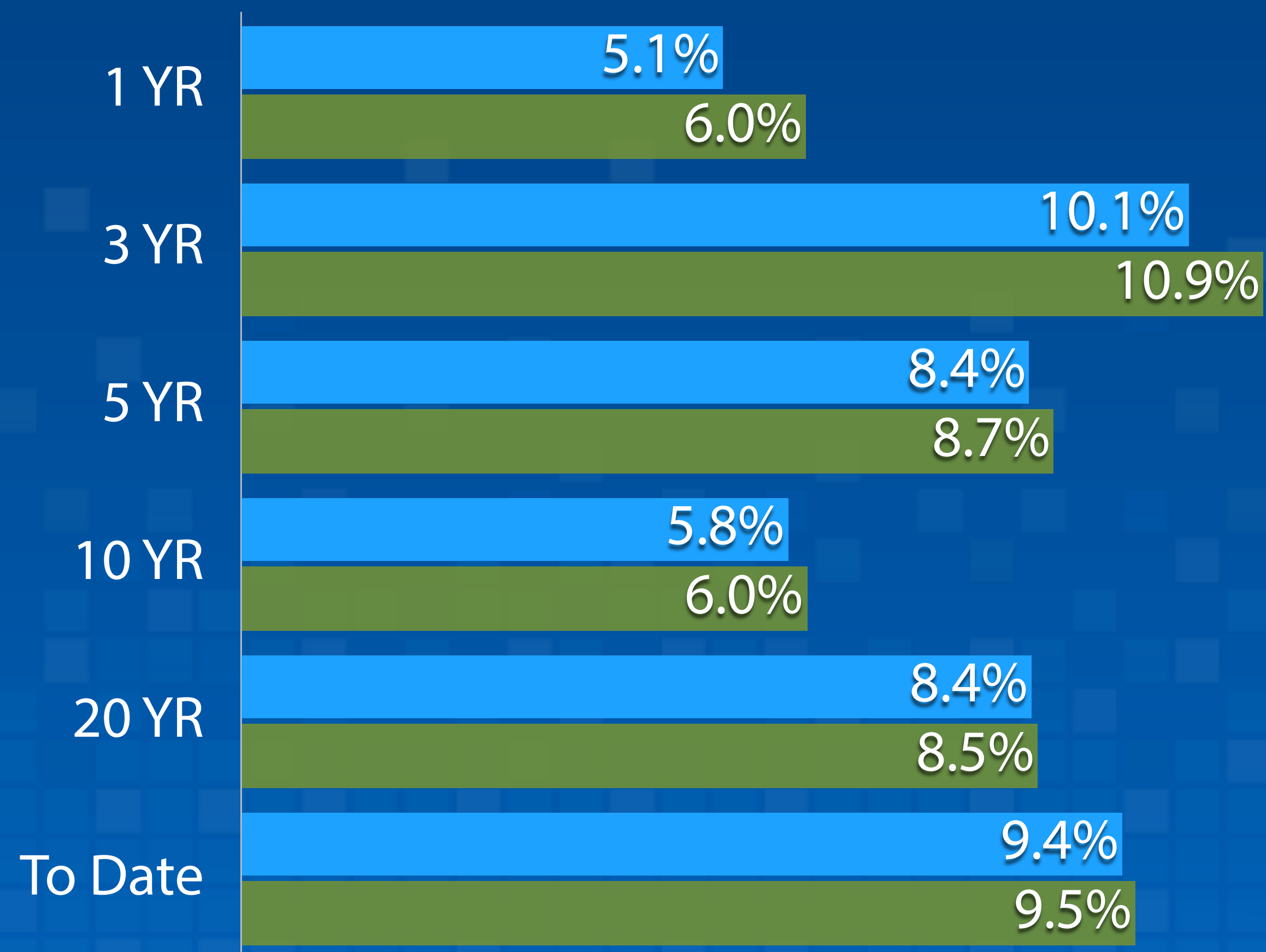
Increased portfolio diversification; added new investments

Hired new private equity consultant

Annual investment policies



Investments: Fund Performance



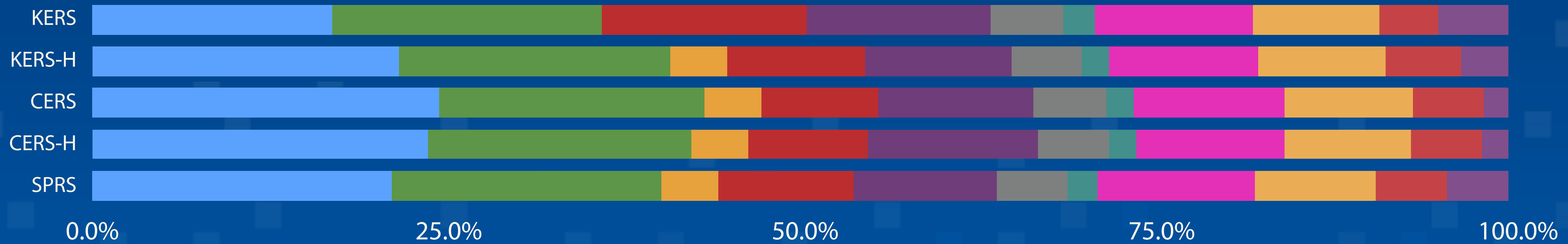
■ Pension Plan Total ■ Pension Plan Index ■ Insurance Plan Total ■ Insurance Plan Index

As of December 31, 2014

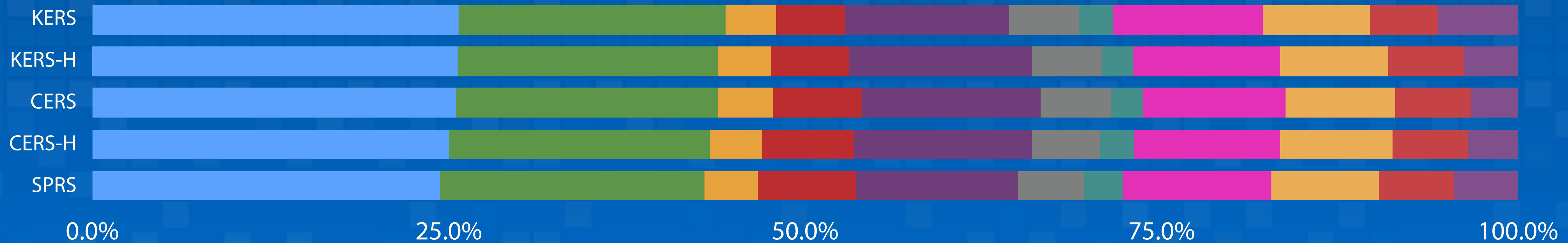
As of December 31, 2014

Investments: Pension & Insurance Fund

Pension Plan Allocations



Insurance Plan Allocations





Investments

2015 Top 5 Challenges

Complete asset/liability study & implement new allocations

Conduct public equity structure study; domestic equities being the primary focus

Build out direct hedge fund portfolio; explore strategic partnerships with fund of funds managers

Research infrastructure/tools for internal use in private equity/hedge funds/fixed income

Evaluate KERS nonhazardous private equity exposure & its liquidity implications

Legal

2014 Top 5 Highlights

KERS and CERS withdrawal legislation

Implementation of the Pension Spiking provisions of SB2

Comprehensive regulatory amendments to clarify and improve KRS' health insurance administration

KRS Housekeeping Bill - introduced in the 2015 Regular Session of the General Assembly

Developed litigation procedures to pursue & collect overpayments



Legal: Admin Litigation & Internal Review



152

Hearing
Requests

↓ 178



158

Hearings

↓ 172



165

DAC/AAC Cases
Reviewed

↓ 187



602

Pre-Hearing &
Status
Conferences

↑ 493



4,273

Reemployment
Requests

↑ 3,292



6,581

Legal Documents
Reviewed

↑ 5,556

2014

2013

Legal: Litigation & Court Cases



Franklin Circuit Court

30

Cases



Court of Appeals

6

Cases



Kentucky Supreme Court

7

Motions for
Discretionary Review



External Counsel

\$2.4 Million



2014
2013



Legal

2015 Top 5 Challenges

Implementation of a regulatory framework for HB 62

Implementation of additional legislation impacting KRS passed during the 2015 regular session

Prepare KRS' IRS Cycle E filing for governmental plans

Assess the numerous agency participation issues facing KRS in light of HB62 & SCS

Represent KRS in a variety of legal forums & provide advice allowing KRS to fulfill statutory mandates

Benefits

2014 Top 5 Highlights

Leadership Changes

Implementation of Call Back Assist

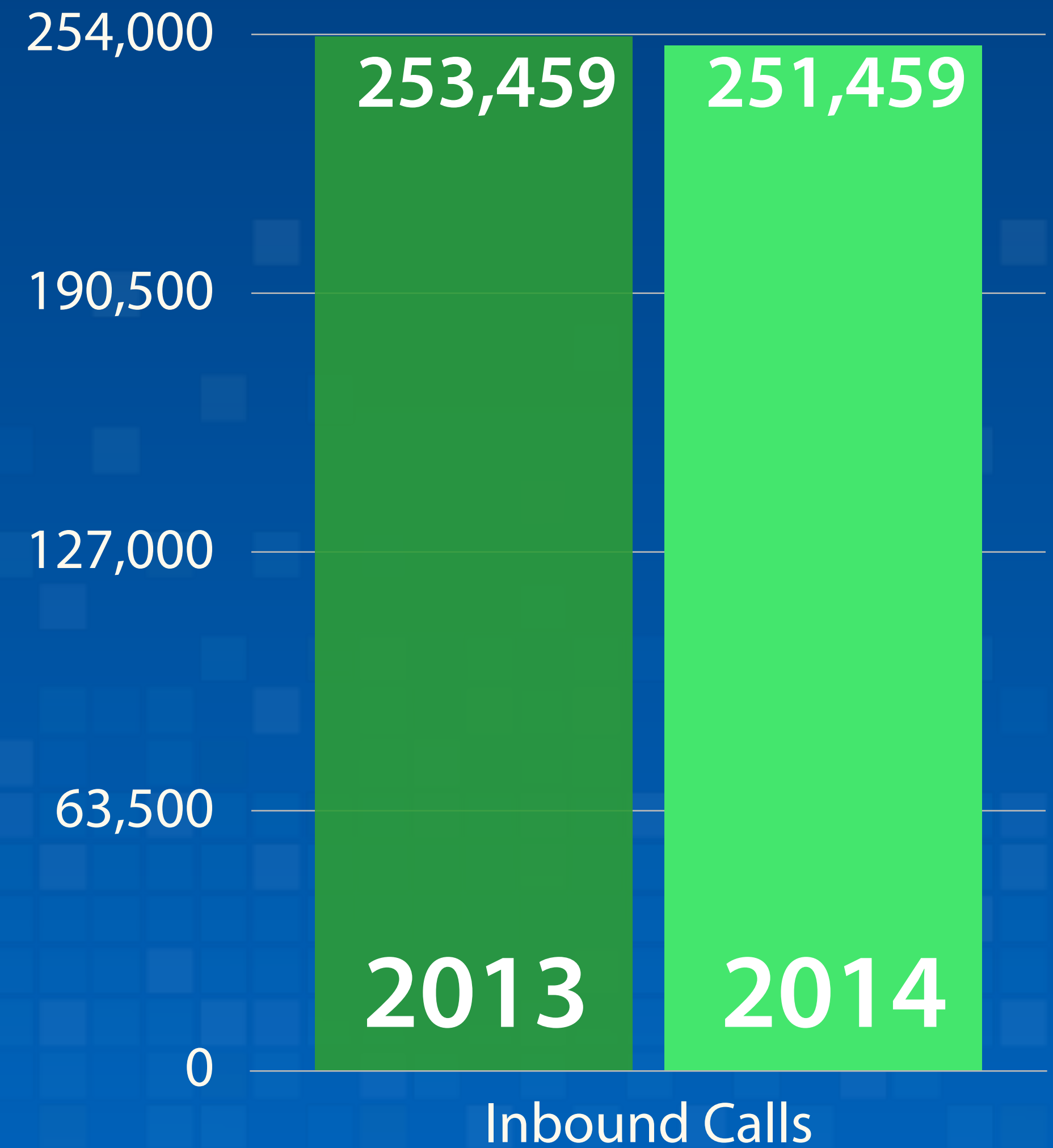
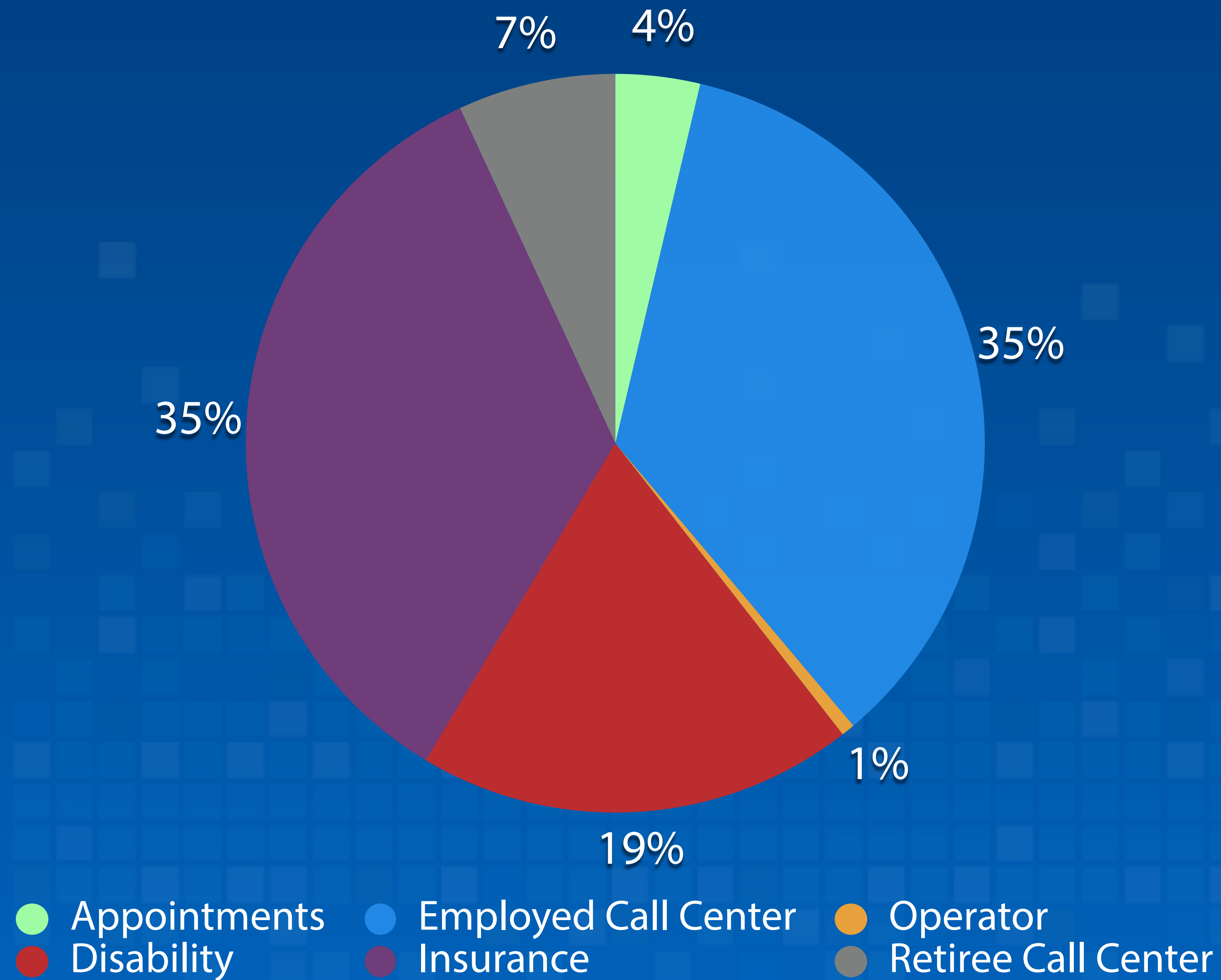
Mandatory KEHP Open Enrollment - extended Call Center hours

Created Strategic Plan to Reduce Backlog

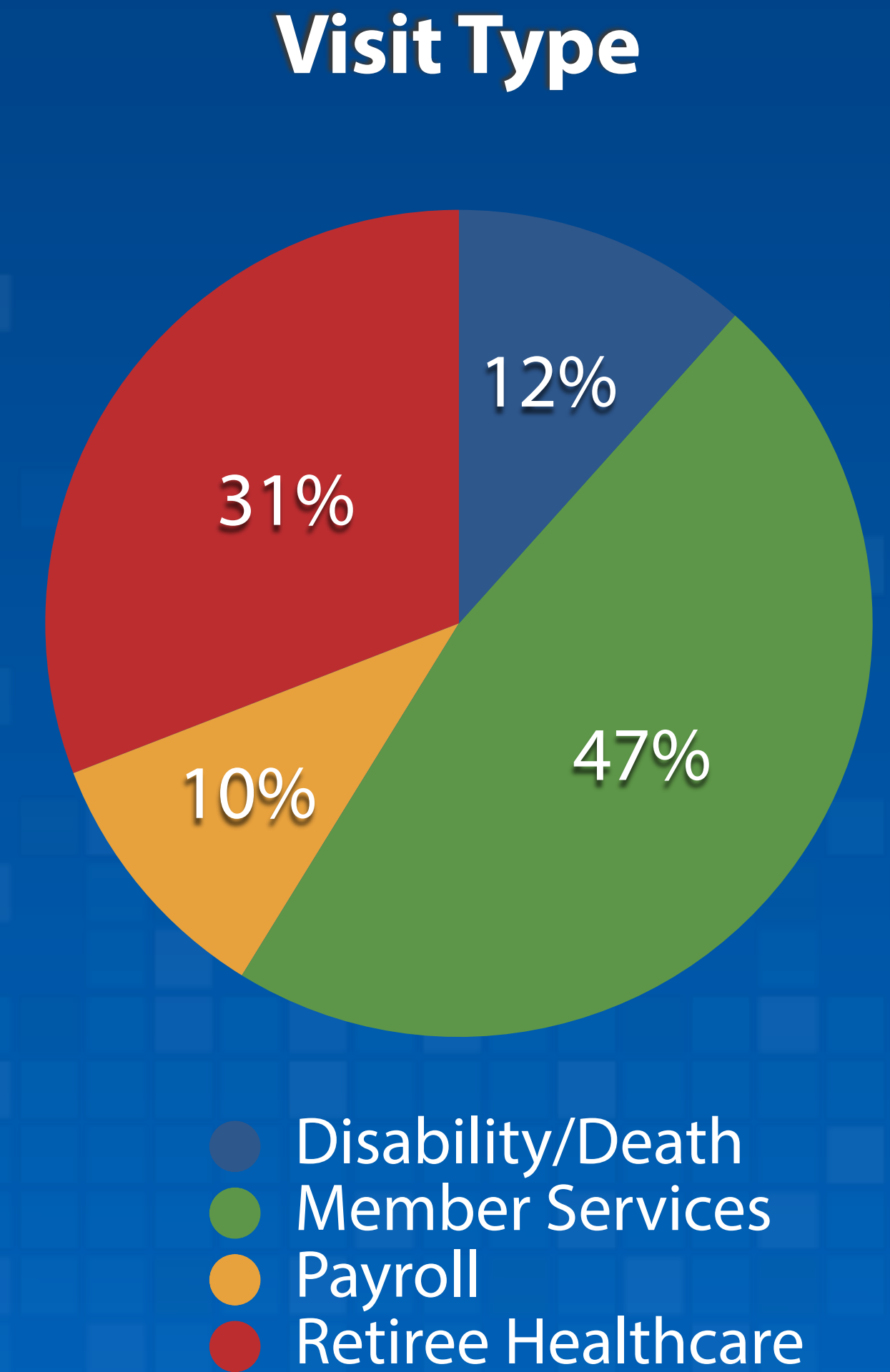
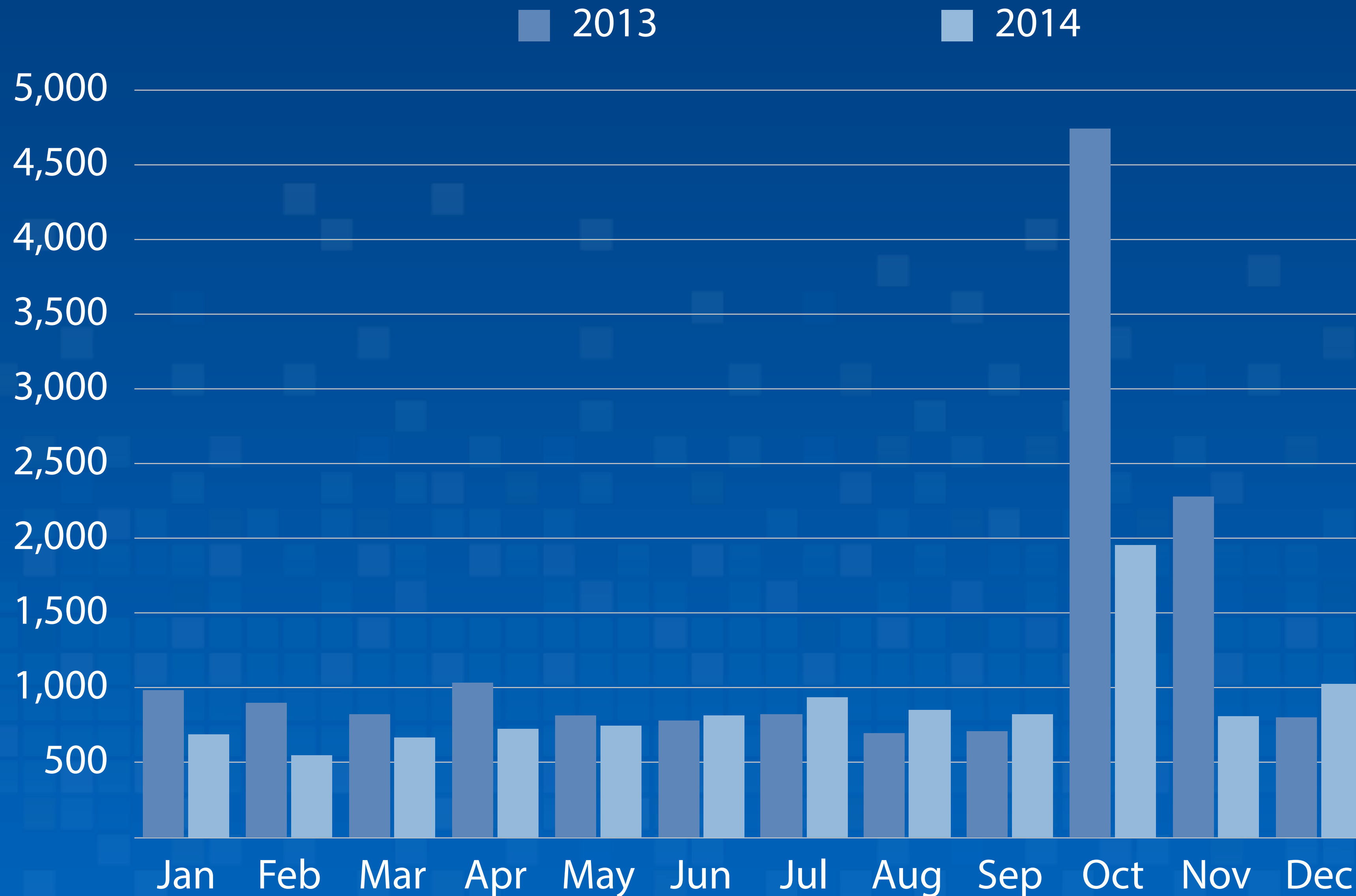
START Support - 1,010 Issues Resolved



Benefits: 2014 Call Volume



Benefits: 2014 Visitors



** While total # of visitors decreased, visitors for Member Services and Disability/Death divisions increased by 10%*

Benefits: By the Numbers



2014
2013

Retiree Health Care

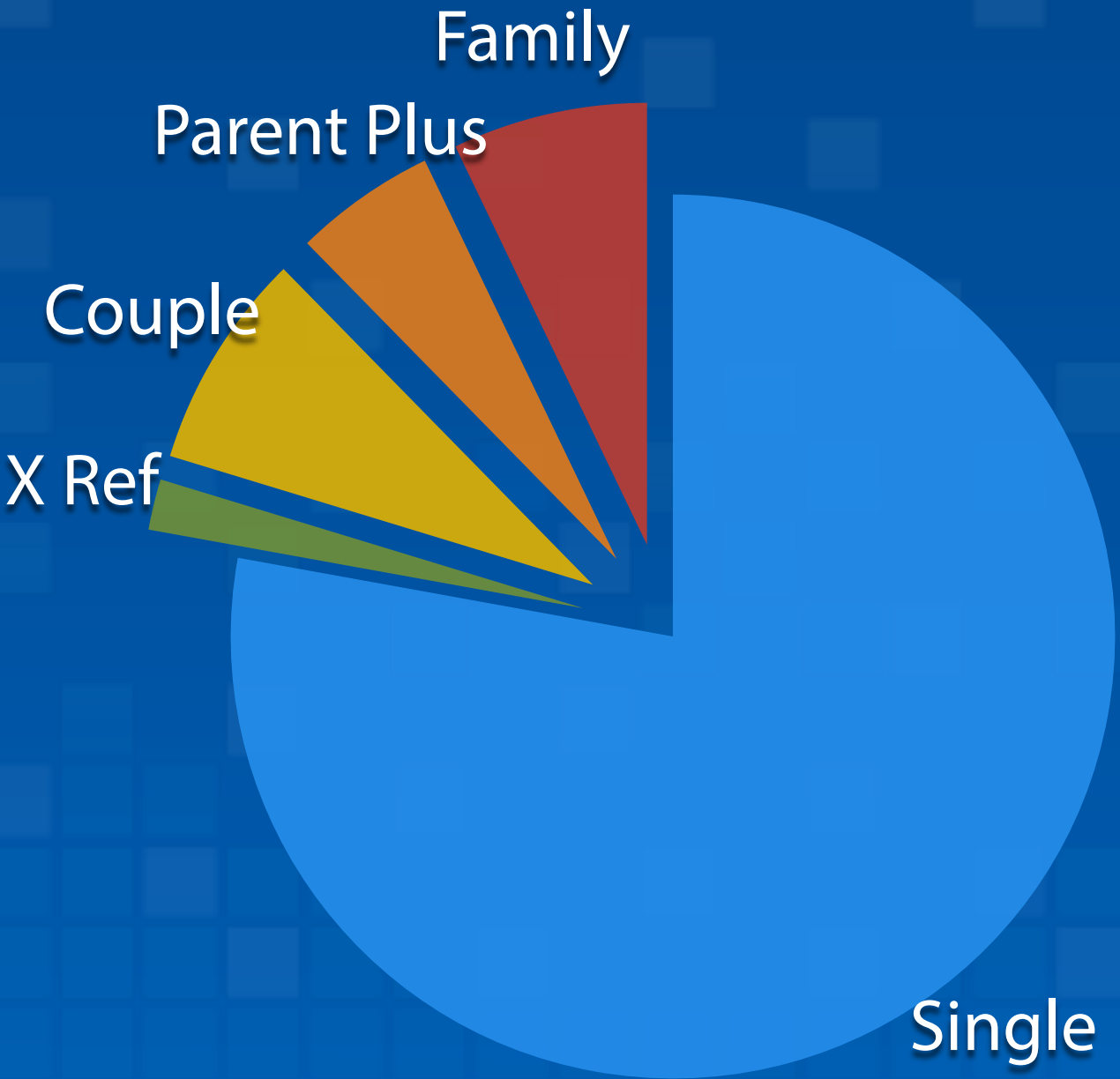
Events

KEHP Open Enrollment
Webinars

Benefit Fairs

Retiree Outreach

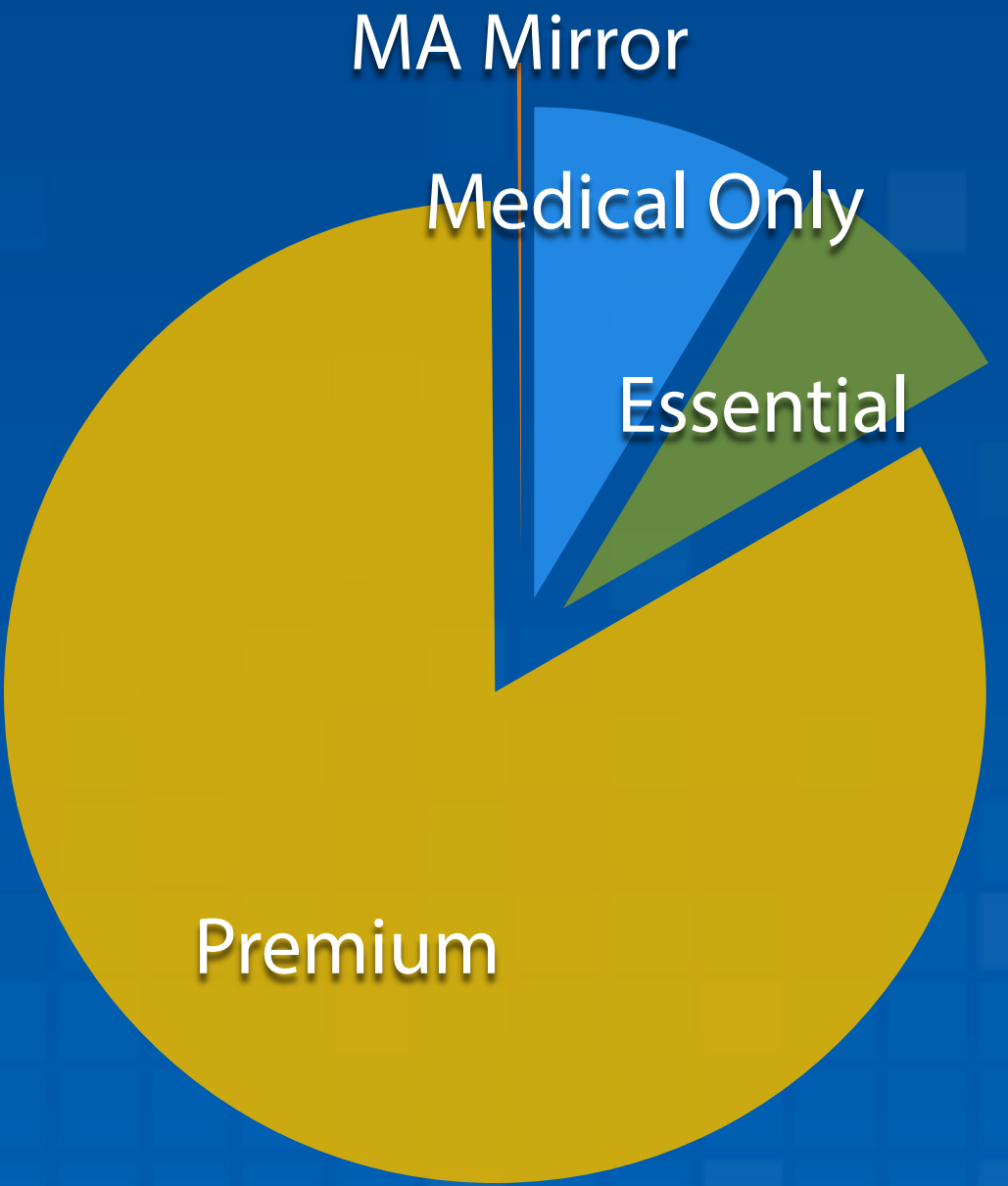
KEHP Enrollments



25,941
Plan Holders

36,545
Covered
↑ **8.6%**

Medicare Eligible Enrollments



48,584
Retirees/Dependents/Spouses
↑ **4.8%**

Benefits: Backlog Reduction Plan

- 14,288 distinct persons
 - 3,040 Estimates and Service Purchase Requests
 - 50% to be completed by 4/30/2015
 - Goal was met on 3/19/2015
 - 11,248 Post Retirement Audits
 - 25% to be completed by 4/30/2015
- 4 month effort led by CBO with special teams from:
 - Member Services
 - Disability & Death
 - Membership Support
 - Employer Reporting and Compliance

effective 1/5/2015





Benefits

2015 Top 5 Challenges

Backlog Reduction Plan - Member Requests and Post Retirement Audits

Accurate Employer Reporting - KHRIS issues

Staff training and development

Balancing Customer Service with call and visitor volume and backlog

START Support - Problem Incident Reports and Enhancements

Operations

2014 Top 5 Highlights

Stronger internal controls & audit issue resolution

Infrastructure investments for disaster recovery, call center, storage

GASB 67 implemented; GASB 68 readiness

Enhanced employer & member communications

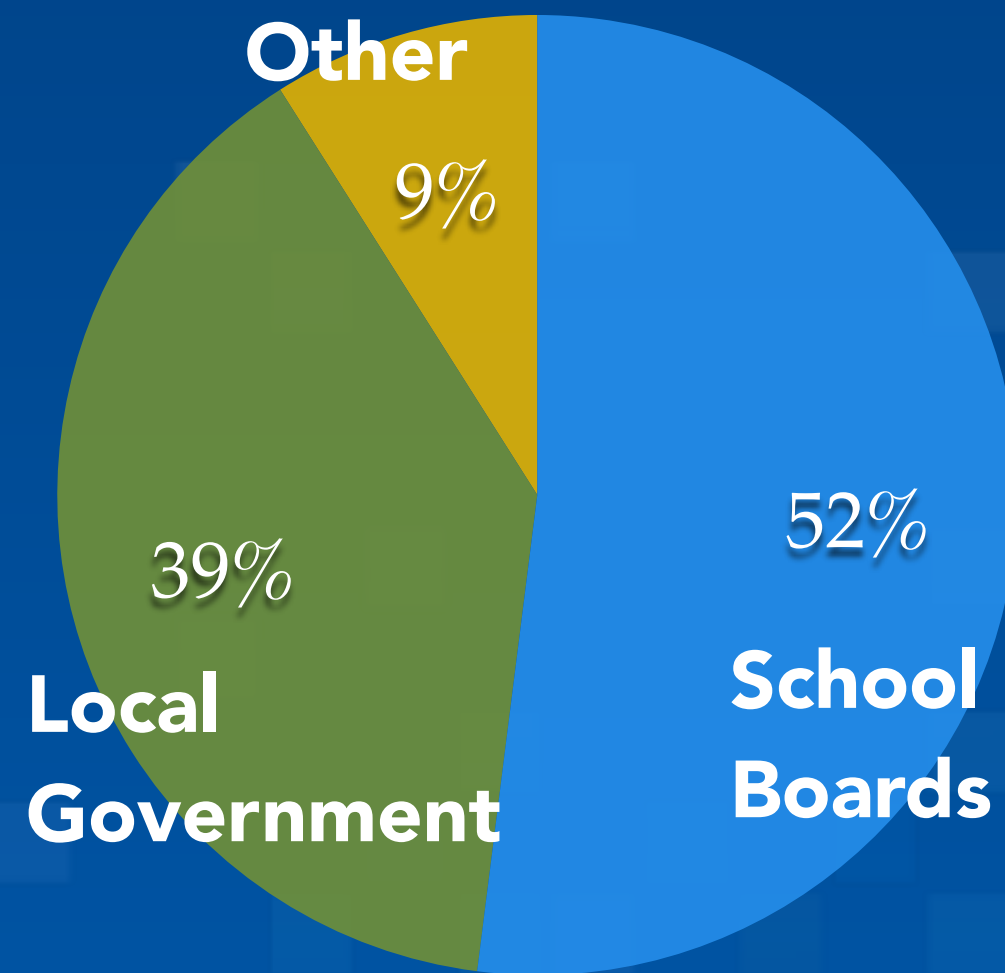
Annual financial reports (PFAR/CAFR)



Operations

Employer Reporting Compliance & Education

1,492 Employers



Increased Focus

Fewer Errors = Operational Efficiencies

- Increased Monetary Receipts
- Accurate Service Credit
- Accurate Retirement Payouts

How

- Onsite Employer Visits
- Employer Training/Internal Staff Training
- Video Outreach
- Webinars

Outstanding Invoices \$ in thousands

	Dec 31. 2013	Dec 31. 2014	March 2015
Monthly Reporting	3,610	2,405	2,154
Penalties	392	303	334
Pension Spiking	0	266	630*
Total	\$4,002	\$2,974	\$3,118

* 12 months to pay per SB2

Operations

2014 Additional Work Effort

APA Audit Mitigation

40 Action Items



GASB 67
GASB 68



House Bill 364:
Re-employment of
Retired Police Officers



Senate Bill 2:
Pension Spiking



House Bill 5:
Public Agency
Disclosures

Website Views

↑ 1,268,454
Total Page Views 2014

Home
451,563
35.6%

About
173,541
13.7%

Governance
25,244
1.9%

Employees
250,300
19.7%

Retirees
91,891
7.2%

Insurance
143,364
11.3%

Employers
45,796
3.6%

Investments
7,551
0.6%

Contact Us
70,409
5.5%

Home

About ▾

Governance ▾

Employees ▾

Retirees ▾

Insurance ▾

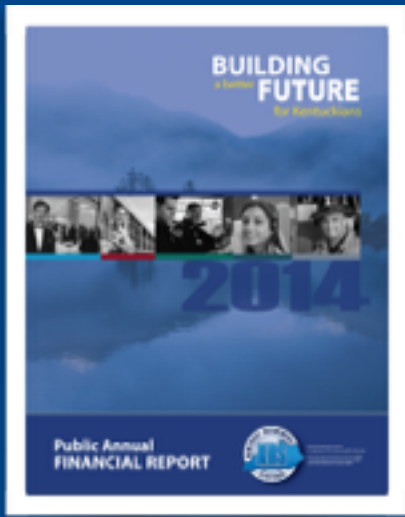
Employers ▾

Investments ▾

Contact Us

Outreach

14 Publications in 2014 including...



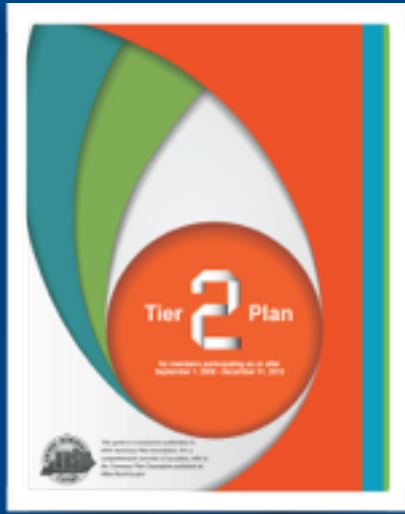
PAFR



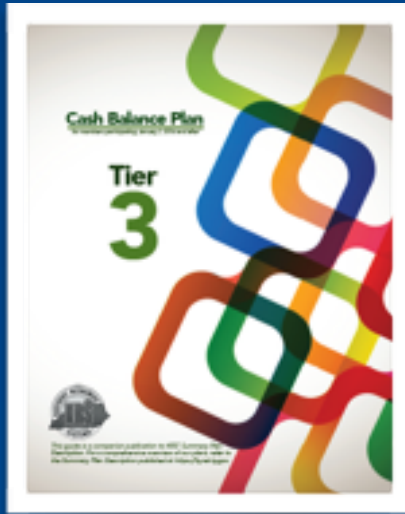
CAFR



Tier 1



Tier 2



Tier 3

Webinars

Town Halls

9 Sessions
1,240 Views

Employer

2 GASB
Sessions

Member Education

16 Sessions
Over 1,633 Attendees

Open Enrollment

6 Sessions
291 Attendees

Social Media



Facebook - 3,054 “Likes” with average growth +100 monthly



Twitter - New account introduced in October, 2014 with 66 new “followers”



MailChimp - Email Newsletter published in spring & fall with 40,355 Subscribers





YouTube - New account introduced in August, 2014 with 8,646 video views.

Field Visits

↑ 6,750 Outreach attendees

- General Education Webinars
- Individual MSS Sessions
- Informational Meetings (General Q&A)

Using Technology to Deliver Member Solutions



KRS deploys System/36 computer system

KRS has 120 employees supporting 178,418 members with a single pension plan tier

KRS installs AS/400 in 1991/92

Planning begins for a client server system replacement for the AS/400

START client server system goes into production in 2011

AS/400 Computer System retirement in 2015.

Planning Begins on Strategies to deliver services to our members.



1960's to Mid-1980's

1980's to Early 1990's

Late 1990's to 2009

Mid-2000's to Today

2015 and Beyond



Mainframes

- Centralized
- Batch Processing
- Highly Available
- AS/400 is Introduced

Client Server

- Personal Computers
- Early Networks
- Lots of Servers


Internet Age

- World Wide Web
- Smart Phones and Tablets
- Cloud Computing Begins

Cloud Computing

- Fast, Highly-Available Broadband Networks
- Large Remote Data Centers
- Mobile Support
- Improved Disaster Recovery

The Future Is Now

- Cloud Computing as the Standard
 - Mobile First Thinking
 - Customer Service Anywhere/Anytime
 - Mobile Enabled Services
- 

Service

Goal: Use technology to deliver high value services to KRS membership at a lower cost structure with improved data quality in a secure environment

Delivery Platforms

2013-2014

- Frankfort Facility
- Call Center
- Monthly Employer File Reporting
- Member Self-Service Portal
- Website
- Social Media
- On-site Data Center / Limited Disaster Recovery Capability

Enhancements

2014-2015

- Call Back Assist
- Video Education
- Webinars
- Disaster Recovery Equipment Deployment

Delivery Improvements

Next 24 Months

- Expand Member Counseling Options
- Member Self-Service Improvements
- Mobile-Focused Solutions
- Cloud Services to Improve Availability, Support & Security
- Disaster Recovery Readiness

Balanced Staffing of 260 Employees

"If you always do what you always did, then you will always get what you always got." - Albert Einstein

KRS Initiatives

Call Back Assist

Addition to Existing Phone System

Lowered Call Center Wait Times

Reduced Abandoned Calls & Member Re-Dials

Handled 23% Increase in Insurance Calls

Greater Than 30% Usage Rate



Time Management

Cloud Based w/Time & Attendance

Project and Cost Tracking

Replace AS/400 at Lower Annual Costs

Enhanced View of Labor Efforts

Better Utilization of Staffing Resources

The Future is Now



Operations

2015 Top 5 Challenges

GASB 68 Implementation - 1,492 employers

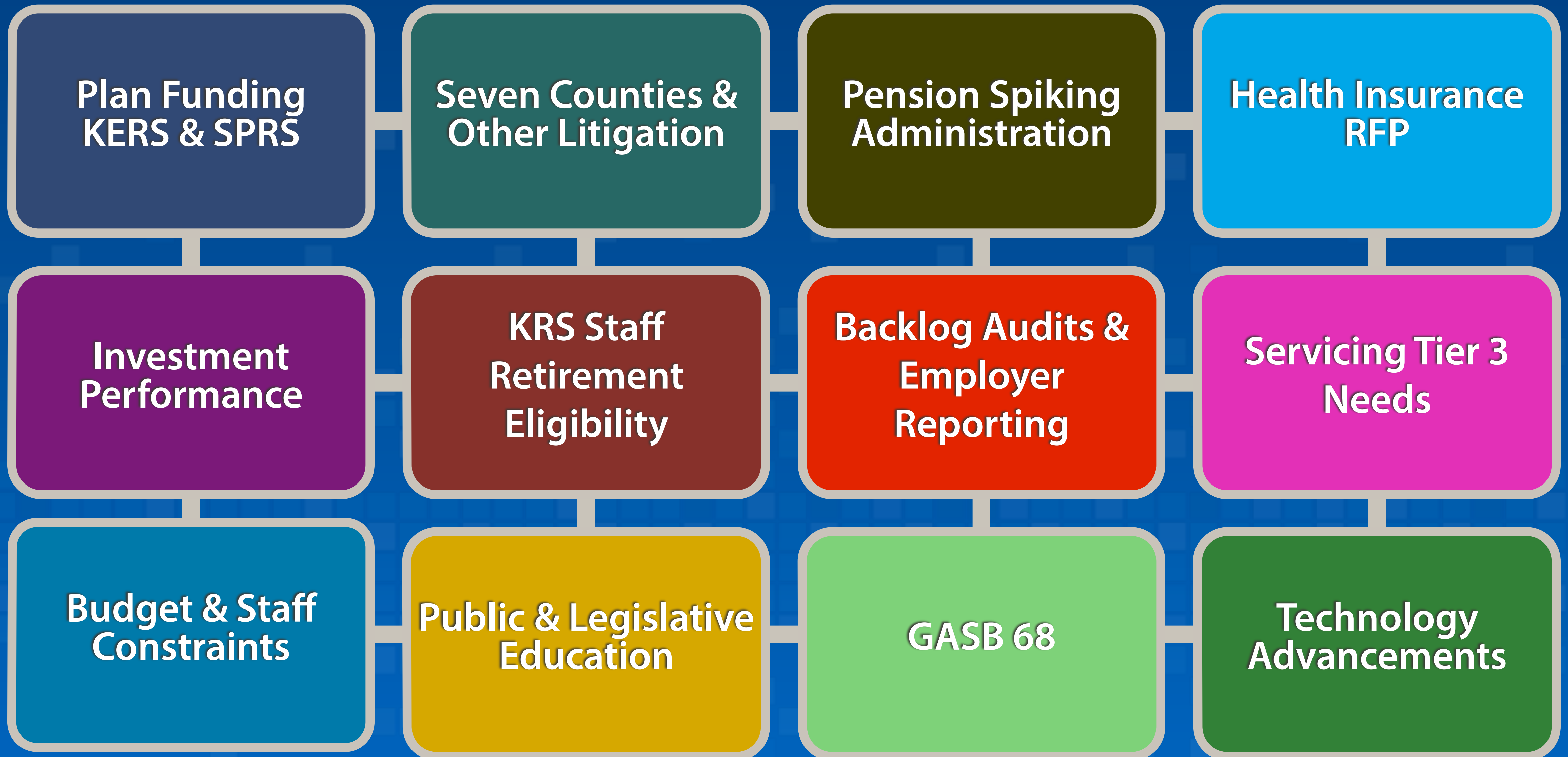
Improve employer reporting & reduce outstanding invoice balance

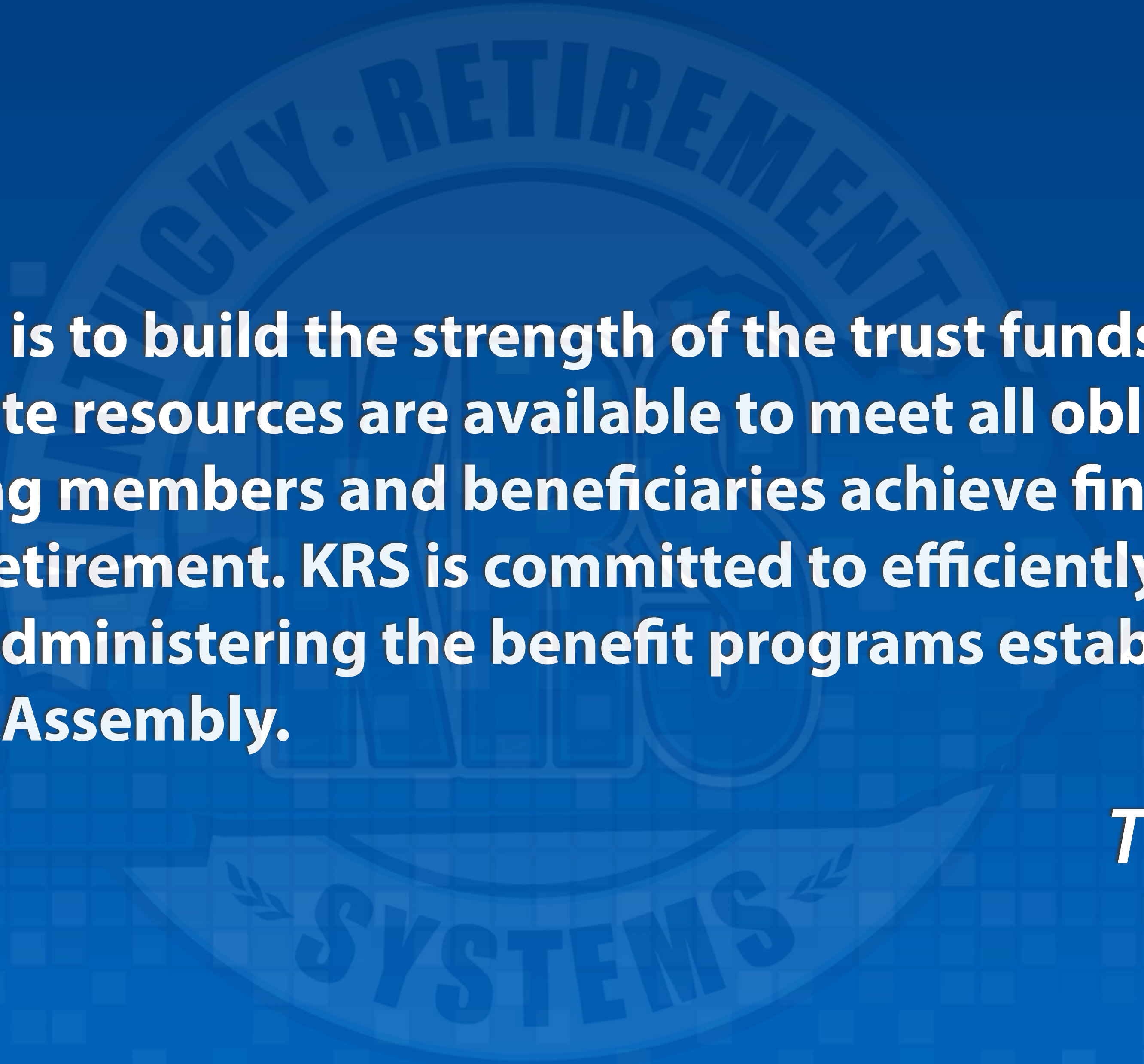
Biennial budget submission FY 17 & 18

Technology investments - catch up & change

Drive operational efficiency

Agency Challenges



A large, faint watermark of the Kentucky Retirement Systems logo is centered in the background. The logo is circular with 'KENTUCKY RETIREMENT' at the top and 'SYSTEMS' at the bottom, flanked by two olive branches. In the center of the logo is a shield with a horse head and a plow.

Our mission is to build the strength of the trust funds to ensure that adequate resources are available to meet all obligations, while helping members and beneficiaries achieve financial security in retirement. KRS is committed to efficiently and effectively administering the benefit programs established by the General Assembly.

Thank You!

